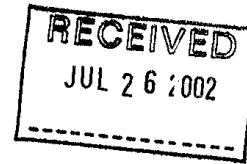




DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224



July 23, 2002

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION

FROM:

  
John C. Reece  
Deputy Commissioner for Modernization &  
Chief Information Officer

SUBJECT:

Final Report: The Business Systems Modernization Office  
Needs to Strengthen Its Processes for Overseeing the Work of  
the PRIME Contractor (Report No. 2002-200-59)

The IRS' Business Systems Modernization program is a long-term project that will revolutionize the way IRS conducts business with taxpayers and manages its business processes. The program has already delivered new systems that provide taxpayers secure, easy, more convenient access to information and more efficient service.

Last year, we improved the efficiency and effectiveness of our systems for responding to taxpayer calls through the Customer Communications 2001 projects, and, revenue agents are using new software that quickly and accurately calculates the tax computation in very complex tax return cases. This year we continue to deliver critical infrastructure for modernized systems and improved service to taxpayers. Some of these projects include:

- **Internet Refund/Fact of Filing**, an Internet service that allows taxpayers to check the status of their refunds, was available May 2002.
- **Security Technical Infrastructure Release (STIR)**, the first release of the common integrated technical infrastructure to support and enable the delivery of modernized business systems. We deployed STIR on May 22, 2002.
- **Customer Account Data Engine Release 1**, a modernized individual taxpayer database that will pilot a selected set of taxpayer returns, as a replacement of our old returns processing systems and database of taxpayer records called, the Master File.

Another key event for the program was the approval of the Enterprise Architecture (EA) version 2.0. EA includes a technical architecture, high-level business processes, and an enterprise transition plan based on Tax Administration and Internal Management Visions and Strategies. It is the framework and key management control guiding all modernization investments.

We are leveraging the lessons of previous modernization efforts, including the need for partnership with our contractor and oversight organizations, a disciplined process management method, strong internal reviews and controls, and rigorous oversight. Our organization continues to mature as we undergo enormous change and support the operations of our agency. We are committed to developing a program that employs sound management practices and uses our resources wisely.

Since your audit, we have made important progress in establishing the key modernization management controls, such as Configuration Management and Risk Management that are critical to the oversight and long-term success of the program. We have set target plans and schedules to fully implement configuration management, risk management, and acquisition; improve cost schedule estimating processes; and develop and implement human capital management, as well as enhance other program management areas.

As we gain experience using our oversight procedures and governance processes, we are refining and augmenting them with rigor and prudent flexibility. We have enhanced contract development guidelines, the PRIME reporting requirements, and program governance processes to better oversee modernization projects.

Our program guidelines now specify the development of defined and negotiated task orders before exiting a milestone and beginning the next phase of work. The IRS and PRIME project managers develop performance-based matrices as appropriate for projects to better define deliverables and monitor responsibilities.

We now contractually require cost and schedule baselines and integrated reviews of these baselines. We establish these baselines when work begins, even if the task orders are not definite. In addition, we conducted an integrated baseline review within 45 to 90 days after task orders are definitized to ensure the work is properly planned

Integrating program reporting requirements with our program oversight and governance processes will go beyond exchanging data to exchanging meaningful information to direct the program. We will provide life cycle cost and schedule projections, and new reports will capture earned value data at the project, program, and funding levels, and in various formats, for measuring cost and schedule performance. For example:

- The **Cost Performance Report (CPR)** provides information on cost and schedule performance.

- The **Program Management Funds Status Report (PMFSR)** provides a funding profile that shows authorized funding and expenditures at the task order and program level.

In addition, we will validate essential cost and schedule components to the earned value management (EVM) data, a key input to investment decisions. A joint team of IRS and MITRE personnel will review PRIME compliance with earned value management requirements.

For long term improvements in cost and schedule estimates, we are working closely with our PRIME contractor to develop specific BSM cost models and parametric cost estimating techniques to improve accuracy in projecting costs and schedules at all stages of the life cycle. We will continuously refine these models by comparing estimated costs and schedules with actual performance.

Finally, we will assess the maturity of our management practices in software acquisition. With the assistance of the Software Engineering Institute (SEI), we will conduct an assessment of our compliance with their Software Acquisition - Capability Maturity Model (SA-CMM) Level 2, which focuses on repeatable project management practices.

As we implement these management process improvements, we will ensure all our processes work together effectively and efficiently to allow us to properly perform our acquisition oversight role in a disciplined environment, and timely develop and deploy business solutions. Moreover, the Associate Commissioner for Business Systems Modernization chairs an executive team to oversee, with assistance from the PRIME and MITRE, the timely implementation of improved management processes.

This work will greatly improve our oversight of the program. However, we cannot eliminate the cost and schedule variances experienced from initial estimates to final deployment. Many BSM projects are based on new ways of doing business. The business requirements are evolving and will continue to impact project schedules. We recognize the need for ongoing improvement in our oversight processes and will continue to apply lessons learned to each BSM project.

I addressed the report's recommendations in the attachment. If you have any questions, please contact me at (202) 622-6800 or Jim Williams, Deputy Associate Commissioner for Program Management, at (202) 622-7458.

Attachment

## **Business Systems Modernization Management Response**

**Draft Audit Report – The Business Systems Modernization Office Needs to Strengthen Its Processes for Overseeing the Work of the PRIME Contractor**  
(Report Number 200220059)

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### **I. Task Order Requirements and Costs Were Not Finalized Prior to Allowing Contractor Personnel to Begin Work**

**Recommendation 1:** Finalize and implement procedures that require the completion of fully defined and negotiated task orders for the next project phase prior to exiting the current development phase or milestone. The BSMO's milestone exit review should ensure that task orders for the next phase or milestone contain measurable performance standards, specific deliverables, costs, and due dates.

**Corrective Action 1:** Our goal is to fully define and negotiate task orders before exiting any milestone. This is critical for a successful exit from Milestone 3. Thus, we made it part of the Task Order Issuance Process Description - applicable to all projects and milestones - on October 12, 2001. However, with projects of the complexity and scope currently in Business Systems Modernization, we may proceed with a letter contract, as permitted by the Federal Acquisition Regulation, to continue progress.

**Implementation Date:** Completed: October 12, 2001

**Responsible Official:** James A. Williams  
Deputy Associate Commissioner for  
Program Management

### **II. Task Orders Did Not Contain Contractor Incentives and Disincentives**

**Recommendation 2:** To ensure the IRS' interests are protected, the BSMO should require that task orders for system design, development, and implementation be performance-based whenever possible. These task orders should include incentive provisions to reward contractors for good performance and quality assurance deduction schedules to discourage unsatisfactory performance. The incentive and disincentive provisions should be based on measurement against predetermined performance standards and review plans.

**Corrective Action 2:** No additional corrective action is necessary.

BSMO uses performance-based contracting for system design, development, and implementation whenever appropriate. If we determine that additional incentives will properly motivate the contractor, and the benefits of such incentives will likely outweigh the cost of contract administration, then we will use them. We do not believe the use of disincentives - in the form of quality assurance deduction schedules - in modernization

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contracts will resolve schedule shortfalls experienced to date. However, we believe that disincentives at this relatively early stage of modernization would adversely impact our ability to cultivate the seamless management partnership with the PRIME that is crucial to the program's long-term success.

**Implementation Date:** Not applicable.

**Responsible Official:** Not applicable.

**III. Project Monitoring Information Was Not Complete or Accurate and Had Not Been Validated**

**Recommendation 3:** Require the CSC to begin evaluating project progress against the entire project budget rather than just the current milestone figures.

**Corrective Action 3:** To evaluate project progress against the entire project budget the IRS requires the PRIME to provide life cycle cost and schedule estimates as part of the Program Management Task Order.

**Implementation Date:** Completed: December 30, 2001.

**Responsible Official:** James A. Williams  
Deputy Associate Commissioner for  
Program Management

**Recommendation 4:** Provide accurate IRS internal cost data to the CSC for inclusion in project monitoring data.

**Corrective Action 4:** To improve cost tracking for FY 2002, we created new financial cost guidelines and procedures. They include:

- Creating the "Guidelines for Identifying and Recording Obligations and Commitments Related to Business Systems Modernization Projects," which explains procedures for IRS employees on how to report labor and non-labor expenses and emphasizes the importance of proper reporting
- Updating the "IRS Financial Operating Guidelines (FOG)" to include instructions on how to provide funding certification in the correct appropriation for BSM projects
- Conducting education sessions for IRS employees during the orientation session for new projects, such as Customer Account Management (CAM) and

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Internet Refund Fact of Filing (IRFoF), to ensure awareness and understanding of proper BSM cost reporting

**Implementation:** January 15, 2002

**Responsible Official:** Director Budget Policy, Planning, and Programs

**Recommendation 5:** Follow through with plans to validate the system used to produce earned value project measures.

**Corrective Action 5:** The IRS will conduct a formal review of the PRIME's earned value system according to the PRIME's Program Management Control System (PMCS) documentation. The review will be completed by December 31, 2002.

**Implementation Date:** Proposed: December 31, 2002.

**Responsible Official:** James A. Williams  
Deputy Associate Commissioner for  
Program Management

**IV. Project Schedules Did Not Provide Complete Accountability for Tasks or Recovery Time for Unplanned Events**

**Recommendation 6:** [To increase the likelihood of timely delivery of projects, the BSMO should ensure that] Individual Task Assignment Schedules are used for critical project tasks.

**Corrective Action 6:** We do not agree that listing individual names at the lowest level in the schedule will improve project management performance. The PRIME is responsible for ensuring the program is properly staffed with the necessary skills and its work breakdown structure (WBS) is developed according to standard project management practices described by Software Engineering Institute's (SEI) Software Acquisition - Capability Maturity Model (SA-CMM). Names of individuals are not included on these schedules because project managers' assignments are dynamically based on the requirements of the work accomplished in each WBS area. Due to complex integrated schedules, budgets, and many dependencies, the availability of individuals to work on specific WBS elements cannot be reliably planned months in advance. Finally, to require the PRIME to maintain the schedule to the individual level would be very costly to plan, budget, and administer.

**Business Systems Modernization Management Response**

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**Implementation Date:** Not applicable.

**Responsible Official:** Not applicable.

**Recommendation 7:** [To increase the likelihood of timely delivery of projects, the BSMO should ensure that] project managers use “lessons learned” from previous BSM projects in developing time estimates for critical tasks. Until those lessons learned are effectively implemented, project schedules should include reserve time to compensate for delays or unplanned events.

**Corrective Action 7:** The IRS will require the PRIME to develop or enhance its schedule estimating capability to improve the estimates provided for modernization projects. The IRS does not agree that reserve time should be built in for delays or unplanned events, because doing so could inadvertently encourage inefficient performance.

**Implementation Date:** Proposed: December 31, 2002.

**Responsible Official:** James A. Williams  
Deputy Associate Commissioner for  
Program Management